

AR12

Niagara Structural Steel

File



annual report 1980

**NIAGARA STRUCTURAL STEEL COMPANY LIMITED
AND SUBSIDIARY COMPANIES**

Head Office

Smith & Petrie Streets, St. Catharines, Ontario

Subsidiaries

Niagara Structural Steel (St. Catharines) Limited

Norsteel Limited

Northern Steel Co. Ltd.

Norforge Inc.

Kenarin Steel Sales Corp.

415572 Ontario Inc.

Directors

B.A. Brown

M.E. Fedryna

Irwin Goldhart

M.J. Howe

R.A. Kennedy

H.W. Olch, Q.C.

H.P. Tomarin

C.C. Weeks

Officers

H.P. Tomarin, Chairman of the Board and Chief Executive Officer

R.A. Kennedy, President and Chief Operating Officer

M.E. Fedryna, Vice-President Material Services

S.O. Nicholls, R.I.A., Vice-President Finance

D.J. Kilgour, P. Eng., Vice-President Fabrication Division.

S.L. Tomarin, Executive Assistant to the Vice-Presidents

S.A. Tomarin, Assistant to the President

H.W. Olch, Q.C., Secretary

P.J. Kent, Assistant Secretary

Auditors

Ernst & Whinney, Toronto, Ontario

Solicitors


Olch, Torgov, Cohen & Kent, Toronto, Ontario

Registrar and Transfer Agent

The Canada Trust Company, Toronto, Ontario

First Preference Shares, Series A

Listed — Toronto Stock Exchange



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REPORT TO THE SHAREHOLDERS

Your Directors are highly gratified to announce that their 1979 prediction of a heavy increase in sales and a clear return to substantial profitability in fiscal 1980 has indeed been realized.

Net profit on a consolidated basis for the period under review is \$836,744 (\$1.67 per common share) on sales volume of \$61,536,788, compared with a net loss of \$1,186,007 (-\$2.49 per common share) on sales volume of \$43,032,323 for fiscal 1979.

Good demand continued for Niagara's products at all steel service centres - St. Catharines, Ont., Sept-Iles, Que., and Orchard Park, N.Y. - and at the grinding ball mill at Sept-Iles. Our sales into the U.S., spurred by exchange rates favourable to exports, recorded impressive gains.

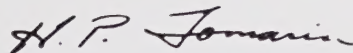
Slow growth and an uncertain business outlook in Eastern Canada persuaded Niagara to close down its Niasco steel plate fabricating division at Grimsby, Ont. The implementation of economies and the exercise of great selectivity in contract bidding by the Fabrication Division at St. Catharines lifted its operations gradually out of the 1979 loss position, and by 1980 fiscal year end it was once again making a positive contribution to earnings.

We have strengthened and will further strengthen our Management team. Your Directors are forecasting that Niagara will enjoy strong activity in all divisions in the year ahead and surpass both 1980 net sales and net profits. We endorse the view of those industry leaders who foresee a decade of solid advances in Canada for steel fabrication and steel service centres.

Quarterly dividends on preference shares are current to September 30, 1980. Common dividends are being resumed with declaration of and provision for a 10¢ common dividend December 31, 1980.

The efforts of all those members of Management and Staff who effected the fine turnabout in Niagara's fortunes are hereby acknowledged.

ON BEHALF OF THE BOARD OF DIRECTORS.



Chairman of the Board
and Chief Executive Officer



President and
Chief Operating Officer

St. Catharines, Ontario
December 1, 1980.

CONSOLIDATED BALANCE SHEET
NIAGARA STRUCTURAL STEEL COMPANY LIMITED AND SUBSIDIARY COMPANIES

| | August 31 | |
|--|---------------------|---------------------|
| | 1980 | 1979 |
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash | \$ 278,347 | \$ 251,085 |
| Accounts receivable less allowance for doubtful accounts of \$310,896 (1979 — \$260,772) | 9,335,868 | 11,532,447 |
| Income taxes receivable | -0- | 21,665 |
| Incentive grant receivable | 93,450 | -0- |
| Unbilled contract revenue | 1,009,138 | 1,852,522 |
| Inventories of steel, work in process and sundry materials at the lower of cost and net realizable value | 8,844,825 | 9,469,570 |
| Current portion of agreement of sale | -0- | 3,831 |
| Prepaid expenses | 97,715 | 56,286 |
| TOTAL CURRENT ASSETS | 19,659,343 | 23,187,406 |
| LONG-TERM INVESTMENTS | 411 | -0- |
| PROPERTY, PLANT AND EQUIPMENT | 8,227,352 | 8,139,525 |
| Less — allowances for depreciation | 2,742,960 | 2,316,496 |
| | 5,484,392 | 5,823,029 |
| OTHER ASSETS | | |
| Long-term incentive grant receivable | -0- | 93,450 |
| Incorporation and issue expenses less amortization | 4,000 | 8,000 |
| Plant start-up costs | 148,650 | 216,208 |
| | 152,650 | 317,658 |
| | \$25,296,796 | \$29,328,093 |

See notes to consolidated financial statements.

AUDITORS' REPORT

To the Shareholders
Niagara Structural Steel Company Limited

We have examined the consolidated balance sheet of Niagara Structural Steel Company Limited and subsidiary companies as at August 31, 1980 and the consolidated statements of operations, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Companies as at August 31, 1980 and the results of their operations and changes in their financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Ernst & Whinney
Chartered Accountants

October 30, 1980

LIABILITIES AND SHAREHOLDERS' EQUITY

| | August 31 | |
|--|------------------|--------------|
| | 1980 | 1979 |
| CURRENT LIABILITIES | | |
| Bank loans | \$ 7,286,203 | \$ 8,027,810 |
| Accounts payable and accrued liabilities | 7,259,858 | 11,065,562 |
| Income taxes payable | 193,121 | 1,067,855 |
| Deferred contract revenue | 87,506 | 244,210 |
| Current portion of term bank loan | 407,972 | 341,300 |
| TOTAL CURRENT LIABILITIES | 15,234,660 | 20,746,737 |
| TERM BANK LOANS | 4,238,531 | 3,668,700 |
| DEFERRED INCOME TAXES | 728,972 | 628,525 |
| | 20,202,163 | 25,043,962 |
| SHAREHOLDERS' EQUITY | | |
| Capital stock: | | |
| First preference shares with a par value of \$30 per share, issuable in series: | | |
| Authorized 44,979 shares; | | |
| Issued 13,359 Series A | | |
| 6-1/2% cumulative shares | | |
| redeemable at \$31.50 | 400,770 | 400,770 |
| Common shares without par value | | |
| Authorized 1,000,000 shares; | | |
| Issued 486,775 shares | 1,041,637 | 1,041,637 |
| Excess of net asset value of subsidiary over purchase price | | |
| of shares at date of acquisition | 193,897 | 193,897 |
| Contributed surplus | 34,661 | 34,661 |
| Purchase fund for Series A | | |
| first preference shares | 12,000 | 508 |
| Retained earnings | 3,411,668 | 2,612,658 |
| | 5,094,633 | 4,284,131 |
| | \$25,296,796 | \$29,328,093 |

APPROVED ON BEHALF OF THE BOARD:

H. P. Tomarin, Director

R. A. Kennedy, Director

NIAGARA STRUCTURAL STEEL COMPANY LIMITED AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

| | Year Ended August 31 | |
|--|----------------------|--------------------|
| | 1980 | 1979 |
| Balance at beginning of year: | | |
| As previously reported | \$2,612,658 | \$3,979,054 |
| Adjustment for interest on income tax reassessment ... | -0- | (118,974) |
| As restated | 2,612,658 | 3,860,080 |
| Add: Net income for year | 836,744 | -0- |
| Transfer from purchase fund for Series A preference shares | 508 | 14,088 |
| | <u>3,449,910</u> | <u>3,874,168</u> |
| Deduct: Net loss for year | -0- | 1,186,007 |
| Dividends paid: | | |
| Preference shares ... | 26,242 | 26,947 |
| Common shares | -0- | 48,556 |
| Transfer to purchase fund for Series A preference shares ... | 12,000 | -0- |
| | <u>38,242</u> | <u>1,261,510</u> |
| BALANCE AT END OF YEAR | \$3,411,668 | \$2,612,658 |

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF OPERATIONS

| | Year Ended August 31 | |
|--|----------------------|----------------------|
| | 1980 | 1979 |
| Net sales | \$61,536,778 | \$43,032,323 |
| Costs and expenses: | | |
| Cost of sales and operating expenses | 58,043,110 | 43,350,111 |
| Depreciation | 441,784 | 466,753 |
| Interest on long-term debt | 643,695 | 327,315 |
| Interest on short-term borrowings | 1,084,303 | 733,608 |
| | <u>60,212,892</u> | <u>44,877,787</u> |
| INCOME (LOSS) BEFORE INCOME TAXES | 1,323,886 | (1,845,464) |
| Income taxes: | | |
| Current | 386,695 | (778,157) |
| Deferred | 100,447 | 118,700 |
| | <u>487,142</u> | <u>(659,457)</u> |
| NET INCOME (LOSS) | \$ 836,744 | \$(1,186,007) |
| Earnings (loss) per common share | <u>\$ 1.67</u> | <u>\$ (2.49)</u> |

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

| | Year Ended August 31 | |
|--|----------------------|-----------------------|
| | 1980 | 1979 |
| SOURCE OF FUNDS | | |
| Net income (loss) | \$ 836,744 | \$ (1,186,007) |
| Add items not requiring an outlay of working capital: | | |
| Depreciation | 441,784 | 466,753 |
| Amortization of incorporation and issue expenses | 4,000 | 4,000 |
| Deferred income taxes | 100,447 | 118,700 |
| Amortization of plant start-up costs | 67,558 | 32,038 |
| TOTAL FROM (USED BY) OPERATIONS | 1,450,533 | (564,516) |
| Proceeds from incentive grants .. | -0- | 33,474 |
| Proceeds from disposals of plant and equipment | 43,164 | 10,163 |
| Reduction in agreement of sale .. | -0- | 3,831 |
| Increase in term bank loan | 636,503 | 910,000 |
| Incentive grant receivable | 93,450 | -0- |
| | <u>2,223,650</u> | <u>392,952</u> |
| USE OF FUNDS | | |
| Current portion of term bank loan .. | 66,672 | 341,300 |
| Plant start-up costs | -0- | 14,666 |
| Long-term incentive grant receivable | -0- | 6,695 |
| Long-term investments | 411 | -0- |
| Purchase of plant and equipment and improvement to buildings .. | 146,311 | 1,362,793 |
| Dividends paid: | | |
| — preference shares | 26,242 | 26,947 |
| — common shares | -0- | 48,556 |
| Cancellation of Series A preference shares | -0- | 14,088 |
| | <u>239,636</u> | <u>1,815,045</u> |
| INCREASE (DECREASE) IN WORKING CAPITAL | \$1,984,014 | \$ (1,422,093) |
| CHANGES IN COMPONENTS OF WORKING CAPITAL | | |
| Increase (decrease) in current assets: | | |
| Cash | \$ 27,262 | \$ 240,437 |
| Accounts receivable | (2,196,579) | 5,347,686 |
| Income taxes receivable | (21,665) | 1,436 |
| Incentive grant receivable | 93,450 | (347,021) |
| Unbilled contract revenue | (843,384) | (1,185,084) |
| Inventories of steel, work in process and sundry materials | (624,745) | 2,465,995 |
| Current portion of agreement of sale | (3,831) | (7,504) |
| Prepaid expenses | 41,429 | 7,841 |
| INCREASE (DECREASE) IN CURRENT ASSETS | (3,528,063) | 6,523,786 |
| Increase (decrease) in current liabilities: | | |
| Bank loans | (741,607) | 2,869,386 |
| Accounts payable and accrued liabilities | (3,805,704) | 5,906,961 |
| Income taxes payable | (874,734) | (772,267) |
| Deferred contract revenue | (156,704) | (299,501) |
| Current portion of term bank loan | 66,672 | 241,300 |
| INCREASE (DECREASE) IN CURRENT LIABILITIES | (5,512,077) | 7,945,879 |
| INCREASE (DECREASE) IN WORKING CAPITAL | \$1,984,014 | \$(1,422,093) |

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NIAGARA STRUCTURAL STEEL COMPANY LIMITED AND SUBSIDIARY COMPANIES

NOTE A — INCORPORATION

The Company is incorporated under the laws of Ontario and conducts its operations in Canada and the United States.

NOTE B — ACCOUNTING POLICIES

Principles of Consolidation: The accompanying financial statements include the accounts of Niagara Structural Steel Company Limited and its subsidiary companies, all of which are wholly-owned.

Kenarin Steel Sales Corp. and its wholly-owned subsidiary
415572 Ontario Inc. (operating as Kentom Steel)
Niagara Structural Steel (St. Catharines) Limited
Norsteel Limited and its wholly-owned subsidiary Norforge Inc.
Northern Steel Co. Ltd.

All significant intercompany transactions have been eliminated on consolidation.

Basis of Accounting for Contract Profits: Profits from contracts are recorded based on the estimates of the percentage-of-completion method of accounting. Losses are provided for in full when known.

Unbilled contract revenue, included with current assets, represents the excess of contract costs and profits recorded over contract billings on specific contracts. Deferred contract revenue, included with current liabilities, represents any excess of contract billings over contract costs and profits recorded on other contracts.

Investments: Investments in companies over which the Company exerts significant influence are accounted for by the equity method, by which the original cost of the shares is adjusted for the Company's share of earnings or losses less dividends since significant influence was acquired.

Property, Plant and Equipment: Additions to property, plant and equipment are recorded at cost.

Major capital expenditures are capitalized, while costs of maintenance and repairs are charged to operations as incurred. Gains and losses on disposals of property, plant and equipment are recorded to operations as incurred.

Depreciation is provided on the straight-line method at rates previously determined by an independent firm of consulting engineers. These rates vary between 2.8% and 26.3% per annum.

Foreign Currency Translation: 415572 Ontario Inc. (operating as Kentom Steel) maintains its accounting records and prepares its financial statements in United States currency. The accompanying consolidated financial statements, expressed in Canadian dollars, include a translation of the subsidiary's United States currency accounting records and financial statements in accordance with generally accepted accounting principles. Assets, liabilities, revenues and expenses have been translated at the following rates of exchange:

1. Current assets and liabilities, at exchange rates prevailing at year end.
2. Fixed assets and capital stock at historical exchange rates.
3. Revenues, expenses and changes in non-current assets and liabilities at average rates in effect during the year.

Gains or losses on translation of foreign currency are recognized in income for the year in which they arise.

Incorporation and Issue Expenses: These costs are being amortized at the rate of \$4,000 per year.

Plant Start-Up Costs: These costs, incurred in connection with the Norforge production facility in Sept-Iles, Quebec, are being amortized over an estimated five-year period based upon production. Plant start-up costs charged to operations during the year amounted to \$67,558 (1979 - \$32,038).

Incentive Grants: Assistance relating to the acquisition of plant and equipment is accrued on the basis of expenditures made and is deducted from the cost of the related assets. Accordingly, depreciation charged to earnings is based on the net cost of the assets.

NOTE C — LONG-TERM INVESTMENTS

During the year the Company acquired 40% of the outstanding common shares of 423398 Ontario Corporation (operating as Niagara International). Since acquiring the shares, the Company has purchased approximately \$880,000 of steel from and charged management fees of \$47,200 to Niagara International.

NOTE D — PROPERTY, PLANT AND EQUIPMENT

| | August 31 | |
|------------------------------------|--------------------|--------------------|
| | 1980 | 1979 |
| Land and land improvements | \$ 611,274 | \$ 596,268 |
| Buildings | 2,564,637 | 2,526,265 |
| Machinery and equipment | 5,051,441 | 5,016,992 |
| | 8,227,352 | 8,139,525 |
| Allowances for depreciation . . . | 2,742,960 | 2,316,496 |
| | <u>\$5,484,392</u> | <u>\$5,823,029</u> |

NOTE E — BANK LOANS

Bank loans included with current liabilities are payable on demand and are secured by accounts receivable and inventories, and by a demand debenture of \$1,250,000 consisting of a floating charge on all assets but subject in priority to debentures given to secure the term bank loans. Term bank loans of \$4,646,503 consist of a term bank loan of \$1,570,000, a term bank loan of \$2,098,725 and a term bank loan \$977,778.

The principal amount of the term bank loan of \$1,570,000 is repayable in twelve consecutive semi-annual installments of \$70,000 each commencing February 28, 1981, with a final payment of \$730,000 due February 28, 1987. Interest on the outstanding principal balance is payable monthly and is calculated at a rate not to exceed one percent over the prime lending rate existing from time to time of the Company's general bankers. This term bank loan is secured by demand debentures of the Company and one of its subsidiaries for \$2,500,000 constituting a first fixed and floating charge on all assets owned by the Company and Niagara Structural Steel (St. Catharines) Limited, subject to these companies giving security on accounts receivable and inventories, in priority to these debentures, to secure bank loans payable on demand.

The principal amount of the term bank loan of \$2,098,725 is repayable in fourteen consecutive semi-annual installments of \$100,625 each, commencing November 29, 1980, with a final payment of \$689,975 due November 29, 1987. Interest on the outstanding principal balance is payable monthly and is calculated at one and one-quarter percent over the prime lending rate existing from time to time of the Company's general bankers. This term bank loan is secured by a mortgage bond of \$2,500,000 constituting a first fixed charge on all real estate owned by Norforge Inc. and a first floating charge on all other assets owned by Norforge Inc., subject to Norforge Inc. giving security on accounts receivable and inventories in priority to these debentures, to secure bank loans payable on demand. This term bank loan is guaranteed without limit, by Niagara Structural Steel (St. Catharines) Limited, subsidiary.

The principal amount of the term loan of \$977,778 is repayable in one hundred and fifteen consecutive monthly installments of \$5,556 each, commencing September 30, 1980 with a final payment of \$338,889 due April 29, 1990. Interest on the outstanding principal balance is payable monthly and is calculated at one and one-quarter percent over the prime lending rate existing from time to time of the Company's general bankers. This term loan is secured by a demand debenture of \$1,000,000 constituting a fixed and specific mortgage on all real estate, machinery, equipment, plant, vehicles, goods and chattels owned by Niagara Structural Steel (St. Catharines) Limited and a floating charge on all other assets owned by Niagara Structural Steel (St. Catharines) Limited. This debenture is subject in priority to the debentures given to secure the demand bank loans and the \$1,570,000 term bank loan. At August 31, 1980 the prime lending rate of the Company's general bankers was 12-1/2%.

NOTE F — PRIOR PERIOD ADJUSTMENT

As a result of an income tax reassessment in 1979 of subsidiary Niagara Structural Steel (St. Catharines) Limited applicable to the year ended August 31, 1976, interest of \$192,350 was charged on unpaid balances. The Company has filed a notice of objection to this reassessment. The balance of retained earnings at August 31, 1978 has been restated to show a retroactive charge of \$118,974 representing the cumulative amount of interest charges as at August 31, 1978. A charge of \$73,376 was applicable to 1979 and was recorded accordingly.

NOTE G — INCOME TAXES

Income taxes have been provided on the income shown in the financial statements. Taxable income is determined on a different basis and gives rise to both current and long-term deferred income taxes:

- (a) Current deferred income taxes (included with income taxes payable) result from the use of a method to record income from contracts for tax purposes different from that used for financial statement purposes.
- (b) Long-term deferred income taxes result primarily from claiming depreciation for tax purposes on plant and equipment in excess of amounts recorded in the accounts.

NOTE H — CAPITAL STOCK

Purchase Fund for Series A First Preference Shares, and Contributed Surplus: In accordance with the provisions attached to Series A First Preference Shares, a purchase fund to the maximum amount of \$50,000 has been established for the purpose of acquiring Series A Preference Shares for cancellation. During the year no preference shares were purchased for cancellation. To date 5,170 preference shares with a par value of \$155,100 have been purchased at a cost of \$120,439, and cancelled. The difference of \$34,661 has been credited to contributed surplus.

NOTE I — GOVERNMENT GRANTS

In 1978, subsidiary Norforge Inc. completed the construction of a plant and the purchase of land and equipment for the Norforge production facility in Sept-Iles, Quebec. A development incentive grant under the Regional Development Incentive Act of the Dominion of Canada was authorized in the amount of \$467,250. \$373,800 of the grant was received during 1979 and the remaining \$93,450 is to be received by March, 1981.

In 1979, Norforge Inc. received proceeds of \$200,000 from the Industrial Development Corporation of Quebec to underwrite the interest costs of loans obtained to finance the costs of the production facility. These proceeds were credited against interest costs in 1979.

NOTE J — COMMITMENTS

The Companies have annual commitments amounting to approximately \$347,000 (1979 - \$229,000) for rentals of property, plant and equipment under leases of varying terms up to five years.

The Companies have entered into several forward exchange contracts whereby they are committed to sell to their general bankers approximately U.S. \$6,205,000 between September 1, 1980 and May 31, 1981 at premium exchange rates varying between 15.28% and 16.95%.

NOTE K — REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

The remuneration of directors and senior officers (as defined by The Business Corporations Act of Ontario) amounted to \$326,643 (1979 - \$296,995).

NOTE L — RELATED PARTY TRANSACTIONS

In addition to the related party transactions described in Note C, the Company paid approximately \$87,000 to an affiliated company for the rental of various equipment.

NOTE M — BUSINESS SEGMENT INFORMATION

The Company operates in two principal industry segments, namely, Steel Contracting and Steel Service Centres. Steel Contracting involves the fabrication and erection of structural steel and the fabrication of steel grinding balls. Steel Service Centres involve the supply and distribution of a variety of steel products. Operations by industry segment for the year ended August 31, 1980 are as follows:

| | Steel Contracting | Steel Service Centres | Adjustments and Eliminations | Consolidated |
|---|---------------------|-----------------------|------------------------------|---------------------|
| Net sales to unaffiliated customers | <u>\$23,458,932</u> | <u>\$38,077,846</u> | <u>\$-0-</u> | <u>\$61,536,778</u> |
| Operating profit | <u>\$ 1,131,876</u> | <u>\$ 3,337,336</u> | <u>\$-0-</u> | <u>\$ 4,469,212</u> |
| Unallocated general and administrative expenses | | | | <u>3,145,326</u> |
| INCOME BEFORE INCOME TAXES | | | | <u>\$ 1,323,886</u> |
| Segment depreciation | <u>\$ 334,284</u> | <u>\$ 87,932</u> | <u>\$-0-</u> | <u>\$ 422,216</u> |
| Corporate depreciation | | | | <u>19,568</u> |
| TOTAL DEPRECIATION | | | | <u>\$ 441,784</u> |

Because some steel contracting operations and some steel service centre operations jointly share a significant portion of the Company's assets and because management believes that these assets cannot reasonably be allocated among segments, no disclosure has been made of segment identifiable assets. Included in net sales to unaffiliated customers are approximately \$27,400,000 of export sales to customers in the United States.

Niagara Structural Steel

Helping to build a strong future.

Steel Contracting

Fabrication

Niagara Structural Steel (St. Catharines) Limited
St. Catharines, Ontario

Construction

Niagara Structural Steel (St. Catharines) Limited
St. Catharines, Ontario

Grinding Ball Mill

Norforge Inc., Sept.-Iles, Quebec

Steel Service Centres

Niagarasteel, St. Catharines, Ontario

Norsteel, Sept.-Iles, Quebec

Kenarin Steel Sales Corp., St. Catharines, Ontario

Kentom Steel, Orchard Park, New York